

Mises and the Soviet Free Market

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Not many Soviet citizens have ever read Ludwig von Mises's great *Socialism*. The Soviet government doesn't want the people to know the truth about a command economy. They are supposed to be good, little citizens—pacified and rendered docile by the benevolence of the omnipotent state.

But even if the Soviet public doesn't understand exactly why the official economy doesn't work, they want as little to do with it as possible. In their own actions, they show consistent preference for free markets over government markets, even though demonstrating that preference is risky.

The reason that Soviet socialism has flopped is—as Mises proved in 1922—that all centrally “planned” economies must, by their very nature, fail.

Given the fact of nature that everybody can't have everything they want—that is, that there is economic scarcity—there must be some means of directing resources to their most efficient uses.

One way to do this is to have central planners set prices and production, telling people what to buy, how much to buy, and when to buy. But, as Mises pointed out in *Socialism*:

In any social order, even under Socialism, it can very easily be decided which kind and what number of consumption goods should be produced. No one has ever denied that. But once this decision has been made, there still remains the problem of ascertaining how the existing means of production can be used most effectively to produce these goods in question. In order to solve this problem it is necessary that there should be economic calculation. And economic calculation can only take place by means of money prices established in the market for production

goods in a society resting on private property in the means of production. That is to say, there must exist money prices of land, raw materials, semimanufactures; that is to say, there must be money wages and interest rates.

For calculation to occur, says Mises, there must be money prices. Those can only come from free markets, never governments. Socialism is thus always doomed to fail.

The problem of this argument for socialists is it doesn't rely on ethical standards or political ideologies. Neither does it say, like so many arguments in favor of markets, that markets are better because they make people richer. (Although it is, of course, true that socialism is immoral, and that it makes people poor.) It rather says of socialism the most damning thing of all to these alleged scientists: that their "scientific socialism" makes rational economic calculation impossible.

Mises simply argues that all exchange relationships established by the government are necessarily arbitrary. In fact, any government intervention hinders economic calculation, and makes the allocation of resources an irrational process.

We take the miracle of market pricing for granted. But notice what happens when government hampers the pricing mechanism. Think of the times that the U.S. government has put price controls on goods like oil. Pandemonium ensues. The Soviet economy is under constant price controls. How do they know, for example, in clothing production what the proper ratio is between ties and socks? The only way to know is to allow people to freely buy and sell, thus expressing their own subjective valuations and personal preferences, and allow the market to establish the proper ratio.

If there is a problem at the tie-sock level, how could a socialist economy run? It has no pricing system upon which to base judgments about production. How do you make any decisions without market pricing? How are production costs figured? How do you know if you're making profits or losses? There is no way without a market. Prices in the Soviet Union are approximated from their own black market or from other countries.

A spokesman for the Soviet Foreign Ministry, in an unintended tribute to Mises, recently told some visiting Americans that his dream was to have "the entire world Communist. Except New Zealand." Why the exception? "We have to have somebody to tell us the prices."

Mises wrote his critique in 1922. It was the most telling blow socialism ever received, and socialists are still trying to answer it. Mises forced socialists to think about how socialism works in practice. After more than 65 years, he has not been answered.

Socialists of all stripes, from Marx to Galbraith, typically wax eloquent on the alleged evils of capitalism, but never spell out how their version of society would operate. If the economy is to be planned, what's the plan? This is the socialist mystery of the missing blueprints, and Mises was the first to call their bluff.

Whatever kind of economy they want, socialists inevitably claim that the Soviet economy isn't it. That's not real socialism, they say. But no matter what socialists want, when the means of production are put in the hands of the state, the Soviet economy is what they're going to get: rich politicians, impoverished masses, and irrational use of resources. The Soviet Union is socialism in action.

I have visited the Soviet Union three times since March 1985, and I have always been impressed by the size and vitality of the underground economy, the vast and murky world of the "black" market—the free network of illegal production and trade that enables millions of dissatisfied comrades to meet their needs.

Ordinary Russians have taught themselves to dodge and weave around the state with surprising skill and daring, as Hedrick Smith notes in his bestseller, *The Russians*:

This counter-economy has become an integral part of the Soviet system, a built-in permanent feature of Soviet society. It encompasses everything from petty bribing, black

marketing, wholesale thieving from the state, and underground private manufacturing, all the way up to a full-fledged *godfather* operation which was exposed and led to the downfall of a high Communist Party figure. . . . It operates on an almost oriental scale and with a brazen normality that would undoubtedly incense the original Bolshevik revolutionaries.

On more than one occasion, I have been propositioned for my blue jeans or tennis shoes (once even in Red Square) by young Russians who seem to appear out of nowhere, quickly arrange a time and place to consummate the transaction, then disappear into the crowd.

A vast market in American dollars bubbles beneath the surface of official life in Russia, despite harsh penalties. A short walk down the street from one's hotel usually brings one or two currency traders to your side, whispering "rubles for dollars" at three and four times the legal rate.

One young man in Leningrad told me he earns about 400 rubles a month, but less than a quarter of it is legal. The rest he earns by marketing contraband books and other items smuggled in from the West. Last year he bought a car—rarely a private possession in the workers' paradise—for about 8,000 rubles. He registered it in his father's name, so the state wouldn't question where he got the money.

Russian dentists, he told me, do not use Novocain, even when pulling teeth, thanks to state misallocation. But he pays his dentist a little extra under the table. Many dentists have their own illegal private practices—complete with pain-killers—during off-hours, and that's when the quality of care goes up.

American movies are popular in the Soviet underground. People duplicate copies and sell dozens all over Leningrad. If you're caught, you get years in the slammer.

Practically everybody in the Soviet Union is trading and exchanging on the free market. Still, empty official slogans

are plastered on buildings or mounted on rooftops all over the place proclaiming "The Plan of the 27th Party Congress Will Be Fulfilled" or, even more laughable, "The Party and the People Are One!"

The Soviet state has been successful so far in keeping articles and books by Ludwig von Mises and other free-market thinkers extremely rare. Still people grumble about the state, then go about their private and profitable affairs. But I'd like to change that. If the insights of *Socialism* became widely known, Gorbachev would be staring a real revolution in the face.

Freedom vs. Planning

Richard Ebeling

As the 20th century began, the most widely held vision of the future was socialist: capitalism would be replaced by central planning and the state would own all the means of production.

The 20th century is ending with the socialist ideal in complete disarray. The heads of socialist governments everywhere declare that economic progress requires individual initiative and private enterprise. They admit that only competition and a market price system can bring economic coordination to a complex system of division of labor.

All of this was anticipated by Ludwig von Mises almost 70 years ago in his famous 1920 article, "Economic Calculation in the Socialist Commonwealth" and in his monumental treatise, *Socialism: An Economic and Sociological Analysis* (1922).

Mises conclusively demonstrated that without market-generated prices, expressed in terms of a common medium of exchange, it is impossible to use society's scarce resources in a